

Speech file

FOR THE PRESS

MAY 7, 1959

NO. 308

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SECRETARY OF STATE FOR ECONOMIC AFFAIRS, BEFORE THE
OVERSEAS PRESS CLUB OF AMERICA, NEW YORK, NEW YORK
THURSDAY, MAY 7, 1959 AT 1:00 P.M.

THE CHALLENGE OF SOVIET ECONOMIC EXPANSION

I can think of no more appropriate place to discuss the challenge of Soviet economic expansion than the Overseas Press Club. Many of your members have been eye witnesses to an industrial growth which is adding a new dimension to the Soviet Union's massive challenge to the Free World. Inevitably, some of you have been attacked in the Communist press because you sought out the full meaning of mounting Communist economic strength and interpreted it for your readers and listeners. As Under Secretary of State for Economic Affairs, I have been carefully studying its implications and reporting them to the American people. In the process, I, too, have drawn some sharp attacks from Soviet leaders and the Communist press.

The last time I reported to the American people in some detail on the realities of Soviet economic policy, I apparently stepped on some sensitive Communist toes. That was just after the visit to this country of Soviet Deputy Premier Mikoyan. Those of you who talked with him will recall that he painted a glowing picture of supposedly vast trade possibilities between this country and the USSR. I used the occasion of a speech in New Orleans to explain why an expansion of trade on Soviet terms -- meaning long-term credits from us -- would be unacceptable to this country. Upon his return to Moscow, Mr. Mikoyan informed the 21st Soviet Party Congress that I was "fanning up the cold war." Communist newspapers have since echoed this line.

Accusing selected personalities and target groups in the West of "waging cold war" on the "peace-loving" Soviet Union is typical of Communist tactics. Whatever conflicts with Communist designs is smeared with the brush of the Soviet-created "cold war." Communist actions, on the other hand, are almost invariably ballyhooed as furthering the Soviet objective of "peaceful coexistence."

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As professional

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As professional communicators you are only too familiar with the problem of semantics when it comes to interpreting Communist intentions and actions. Just how peaceful is "peaceful coexistence?" If Berlin, the Middle East, the Formosa Straits, were not enough to tell us, we have the word of a former Soviet Foreign Minister, who said, and I quote:

"Peaceful coexistence does not mean a quiet life. As long as different social and political systems exist, contradictions between them are inevitable. Peaceful coexistence is a struggle -- a political struggle, an economic struggle, an ideological struggle."

All these elements of the "struggle" are, of course, bent unceasingly to the overriding Communist objective of world domination. This afternoon, I want to explore briefly with you its economic aspects:

That economics is coming to play an ever more prominent role in the struggle was made crystal clear in the recently announced goals of Soviet Russia's Seven Year Plan. We should not make the mistake of giving the Plan less than our most serious attention. This is not just an economic document. It is a political and psychological document as well. The fanfare with which the Seven Year Plan was acclaimed at the 21st Party Congress and during last week's May Day observance, makes it clear that the Communist leaders regard it as a major weapon of foreign policy.

According to the Soviet leaders, the basic objective of the Seven Year Plan is, and I quote, "the maximum gain in time in the peaceful competition between socialism and capitalism."

The Soviet Union has already made substantial strides in this competition. This is borne out by cold, hard facts. Our best estimates of Soviet domestic economic expansion place the average annual rate of growth of the Soviet economy as a whole at between six and seven percent over the past eight years. Their industrial growth rate has averaged between eight and nine percent during this time. Over the same period, our own average annual increase, both in Gross National Product and in industrial production, has been about three percent. In 1957, we estimate the Soviet Gross National Product to have been about \$175 billion dollars -- roughly 40 percent of our own. Soviet gross industrial production in the same year was about \$65 billion dollars, also roughly 40 percent of ours.

The methods

The methods employed by Soviet leaders to raise their economy from the relative backwardness of post-revolutionary days to its present level were starkly and terrifyingly simple: they brutally squeezed an overwhelmingly agrarian population to provide the state with the resources for an unprecedentedly high rate of investment which was concentrated in heavy industry. The ruthlessness with which this was accomplished was made possible only by reshaping Soviet society into a totalitarian mold. The state owns all land and the means of production, and controls the labor force. State planning supplants market forces based on demands of the consumer, whose interests are completely subjugated to the achievement of Communist goals. The real power behind the state is the militant, elite Communist Party, which wields the levers of power.

The unveiling of the Soviet Seven Year Plan has made it clear that the future economic development of the Soviet Union will continue along the same lines. The consumer will continue to be short-changed in favor of high investment in heavy industry. The goals proclaimed by Soviet leaders envisage the increase of industrial output by 80 percent by 1965. Annual steel production is to be pushed close to 90 million tons by the end of the plan -- an increase, if accomplished, of some 35 million tons. Corresponding increases are planned for other selected industries which spell national power. While these goals represent a slight decrease from recent annual growth rates, the projected expansion nevertheless is very impressive.

When they proclaimed their newest plan, the Soviet leaders tied its goals to the slogan of "overtaking and surpassing" the United States. This goal, which is as old as the Soviet state, is now being dinned into the Soviet people day and night by every technique known to mass indoctrination.

It is not my purpose to indulge in a numbers game here today. I will simply state that there is no possibility of the Soviet Union outstripping the United States in industrial production by 1970, and as for outstripping us in per capita production by the same date, this is nothing but a political smoke screen designed to hide from the Soviet consumer the way in which he is being shortchanged. But it is undeniable that the Soviet economy has been growing at a faster rate than our own in recent years. There is also no doubt that if we project our own growth at the level of present performance, the Soviets will continue to make substantial gains in their self-proclaimed economic race with us.

This is a sobering thought. To begin to appreciate its implications, one need only speculate on the nature of a world in which the Soviet Union had actually achieved economic pre-dominance. One could bring this thought one step closer and speculate on changes which might be brought about in the world if the Soviets succeeded in catching up significantly on our

USSR would surpass us by a certain future date.

The answer is simple and within our power. We must find ways of substantially increasing our rate of economic growth, while at the same time avoiding the perils of inflation.

As experts in information techniques, you will readily appreciate that the impact of continuing Soviet economic expansion is not only military, political and economic, but profoundly psychological as well. Let us briefly examine some of its major international implications:

First, and most obviously, the achievement of planned Soviet goals would result in a further expansion of the economic base of Soviet military power. Already, despite the fact that Soviet output is only 40 percent of our own, Soviet military expenditures on an absolute basis would appear to be at least as large as ours. The Soviet system's ability to ruthlessly mobilize available resources for national policy purposes ensures that as the Soviet productive base increases, so will the magnitude of the Soviet military threat -- enabling communist leaders to pursue more aggressive foreign policies.

Second, Soviet economic success is of vital importance to international Communism in projecting an image of the Soviet system as the magic blueprint for the achievement of rapid progress by the less-developed countries of Asia, Africa, the Middle East and Latin America. We should not underestimate the appeal which such an image may have on men of influence in the underdeveloped countries who are desperately seeking to lead their people into the Twentieth Century.

Actually, the Soviet experience is not a good example for the underdeveloped countries. Conditions in Soviet Russia forty years ago were quite different from those in most of the underdeveloped countries today. Pre-revolutionary Russia, although a backward country in many respects by Western standards, had already achieved a rapid rate of economic growth. It ranked fifth among the industrialized countries of the world and had definitely passed the "take-off" point to self-sustained growth. It had a small, but highly competent corps of administrators, scientists and technicians. The ratio of available resources to population was relatively high. The Soviet Union never has faced the most pressing problem of many of the present underdeveloped countries: the crushing burden of an exploding population.

However, despite the inapplicability of the Soviet experience to their own problems, the less developed countries cannot help but be profoundly affected by the example of purposeful and dramatic increases in output achieved under Communism. In some of these countries, highly organized Communist Parties and their front organizations work unceasingly to prey upon this susceptibility. The Seven Year Plan is a major weapon in their propaganda arsenal.

Finally,

Finally, increased Soviet economic capacity will enable the Communists to expand and extend their efforts to penetrate the underdeveloped areas through trade and aid. As one Soviet writer put it, the current economic offensive is, and I quote: "a new form of the economic competition between the two systems, but one which takes place in the territories of countries having a majority of the human race." In other words, the Soviet economic offensive is a means of carrying the struggle against us in its economic aspects to the most vulnerable sector of the Free World. The ultimate objective of Soviet leaders continues to be the downfall of the West. Blocked, however, by the unity and the continuing political, economic and social health of the more industrialized Western countries, the Soviet leaders calculate that the underdeveloped nations offer the best opportunities for eventual take-over.

The Soviet Union launched its aid and trade drives in the newly-emerging areas in 1954, as part of a general campaign to establish the Soviet "presence" in the most vulnerable target countries. Since then, the Soviet Union has extended some two and a half billion dollars in military and economic development credits -- one billion during last year alone. The number of Soviet technicians in these countries has increased to 4,000. Soviet trade with them has doubled since the beginning of the offensive.

The techniques employed by the Soviets include low interest rates, repayment of loans in commodities, construction of projects which have a high visual and psychological impact, speedy negotiation of agreements, long term trade commitments, and incessant propaganda in which domestic Communists and "fronts" play a crucial role. By these devices, Moscow seeks to hammer home to the peoples of the underdeveloped areas the cynical theme that the Soviet Union not only possesses a supposedly superior economic system, but is the "selfless friend" of newly-developing peoples and stands ready to extend economic and military assistance "without strings."

Once a country becomes dependent upon the Soviet Union for a large share of its trade or of its development program, the "strings" become very apparent and are manipulated to serve Communist ends. The Soviets do not hesitate to employ blackmail and pressure by deliberately turning off their trade or cancelling their development projects. Any nation which permits its economy to become heavily dependent on the Soviet Union soon finds that it has a very truculent bear by the tail.

Soviet short-term objectives in the underdeveloped countries can be summed up as a drive for "identification" with popular aspirations and the more militant nationalist forces -- so long as they are not opposed to Soviet objectives.

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This drive is accompanied by opportunistic Communist agitation calculated to inflame local passions, exploit latent tensions between these countries and the more advanced nations of the West, and to maintain a continuing situation of crisis. Economic arms are only part of their arsenal, which includes military, political, diplomatic, cultural and propaganda weapons. Communist penetration of the Middle East, for example -- of which Iraq is the most recent and most dramatic illustration -- was not achieved by economic weapons alone. But the use of economic weapons on a large scale is an indispensable element of this concerted effort in an area which is deeply concerned with economic advancement.

Identification is only the short term objective. Communist leaders have made no secret of the fact that the purpose of identification is to strengthen Communist forces operating within the target countries. To employ Communist jargon, the "national liberation movements" -- the Communist term for the nationalist groups in the less developed countries -- will undergo a "two-stage" revolution. Once a strong foothold has been secured through agitation of anti-Westernism and hypocritical support of deep-seated nationalist aspirations -- and once conditions are judged to be ripe in a given country -- the native Communists will inaugurate the second stage by openly challenging the leadership of local nationalist forces on domestic issues. This is a classic example of Leninist strategy: using nationalism to oust Western influences and then eliminating the nationalists.

There is increasing evidence in the public pronouncements of Soviet leaders that Communist strategy is now directed at emphasizing Communist-inspired domestic programs in under-developed areas in an effort to enhance the role and prestige of Communist groups in these countries. This strategy also involves attacks on nationalist forces by the local Communists as they attempt to seize power for themselves.

These, then, are the main elements of the Soviet economic offensive. I turn now to the posture which the United States should assume in meeting this mounting challenge. What should be the character of our own economic relations with this growing power, whose leaders are holding out such golden prospects of expanded trade with us?

First, let me state unequivocally that the United States would welcome an expansion of peaceful, two-way trade with the Soviet Union. President Eisenhower made this clear in his reply to Soviet Premier Khrushchev's well-publicized letter proposing a grandiose increase in trade between our two countries. During his "Unofficial" visit to this country earlier this year, I gave Mr. Mikoyan similar assurances -- as did every American official with whom he spoke.

We welcome

We welcome peaceful trade, despite the fact that the Soviet Union ceased being a normal trading partner in 1918 when the Communist leaders decreed a state monopoly of all foreign trade as indispensable to the totalitarian economic system they were developing. This monopoly was designed to isolate the Soviet economy from the Free World market system, while permitting it to tap the West for advanced capital equipment and technology which in the Thirties played a key role in the forced draft industrialization of the closed and autarchic Soviet economy. This state monopoly has now embarked on a major campaign in the advanced industrialized countries to obtain the latest technology and capital equipment for both productive and prototyping purposes. The intent of the drive is to gain years in the accomplishment of certain key industry goals such as those of the chemical industry under the Seven Year Plan.

We welcome peaceful trade because it has always been the purpose of your government to promote this country's foreign commerce and because we sincerely believe that trade is mutually beneficial.

But we are not sanguine as to the prospects for the expansion of satisfactory and continuing trade relations. The major obstacles to these are inherent in the Soviet philosophy and organization for trade.

We have only to recall the experience of the Thirties: Once the purposes of the Soviet procurement campaign were achieved, their imports from the West dropped from some 3.8 billion rubles in 1931 to 841 million rubles in 1935. Our own sales to the Soviet Union plummeted from around 100 million dollars in 1931 to 12 million dollars in 1932. The Soviet Union in its trade with the West is today motivated by the same autarchic considerations as in the Thirties. This is borne out most forcefully by the fact that the second ranking industrial power of the world exports to the West about the level of Denmark -- roughly 1 billion dollars a year -- and that these exports are more characteristic of those you would expect from an underdeveloped or semi-developed country than from an industrial giant.

Soviet exports are, in the main, bulk primary products and semi-finished goods which permit the state trading monopoly to raise the foreign exchange to pay for imports with the least possible dependence on the world market. The price-cutting tactics to which the Soviet state trade monopoly has resorted, in order to fulfill its export plans in such cases as tin and aluminum, have already proved injurious to such traditional Free World exporters as Bolivia, Malaya, Indonesia, and Canada. The monopoly's use of barter techniques also tend to disrupt established trade channels for the movement of basic commodities upon which friendly underdeveloped countries of the Free World are so dependent.

Furthermore, both Premier Khrushchev and Mr. Mikoyan have frankly said that an expansion of Soviet imports in the next several years is predicated upon the extent to which the West can be persuaded to finance Soviet purchases.

Do the Soviet leaders actually expect us to finance the growth of the industrial machine of a hostile Communist Party whose leader has threatened to "bury us"?

Now, as to the underdeveloped areas: In considering the complex task of meeting the Soviet challenge in these countries, we should never lose sight of the fact that the accomplishment of Communist designs will depend much less upon the volume of Soviet aid and trade than upon the political and economic health of the newly-developing countries and of the entire Free World. This is fundamental.

Experience has taught us that Communist power will flow wherever there is real or apparent weakness. Our answer to the Soviet challenge must be to help the peoples of the newly-developing nations to realize their potential for economic progress under free institutions. We must be steadfast in our purpose of building a sound and expanding Free World economy, in which these countries will find their greatest opportunities for advancement. We seek to achieve this goal in two ways: through international economic and financial institutions and programs in which all Free World countries collaborate, and through our own programs, principally those conducted under the Mutual Security Program and the Reciprocal Trade Agreements Act.

In pursuing these twin paths to our goal, we must:

1. Continue, without any interruption for lack of adequate resources, the vigorous operations of our own new Development Loan Fund, which provides a flexible source of financing and a very special hope to the less developed nations in building the basic and productive facilities needed for economic growth.

2. Continue our program of military assistance and defense support, to provide a shield of security from outside aggression and internal subversion behind which the governments of the newly-developing countries can work at the primary task of improving the well-being of their peoples.

3. Continue

3. Continue to work with the International Bank for Reconstruction and Development and the International Monetary Fund, which are now expanding their resources. These institutions have come to occupy a key position in the structure of Free World economic cooperation by mobilizing the resources of many countries for the purpose of sound economic development and protection against serious temporary drains on foreign exchange.

4. Continue the active and time-tested lending operations of the Export-Import Bank.

5. Intensify our participation in programs of technical cooperation, to help provide the basic management and technical skills which are lacking in all of the underdeveloped countries.

6. Take a leading part in reducing barriers to world trade through our own example and through such multilateral instruments as the General Agreement on Tariffs and Trade.

7. Continue to extend sympathetic and open-minded consideration to the problems which the less developed nations face as a result of price fluctuations in their raw material exports. Such price fluctuations can, and have, wiped out many of the benefits to the less developed countries from Western economic assistance.

8. Promote and strengthen collaboration between government and private enterprise in order to put the unmatched financial and management resources of American private business to work on a mutually profitable basis in the newly-emerging nations.

Finally, I cannot emphasize too strongly that our own economic health and growth is the single most important element in our posture vis-a-vis Communist economic expansion.

We can and must find ways to increase our own economic progress. The present rate of growth in our economy is simply not good enough. We must devote our very best brains to finding ways of stimulating growth while maintaining the basic stability and value of our currency. Unless we do so in a more purposeful fashion, we shall weaken our capacity to provide the leadership which the Free World so urgently expects of us.

By accelerating our domestic growth we shall make important strides toward meeting the Soviet challenge in the underdeveloped and largely uncommitted nations. Because of our intimate links with them, American economic growth will inevitably react favorably on their development. Unlike the effects of Soviet expansion, the benefits of our growth and prosperity are transmitted through normal trade and private capital channels to all nations which participate with us in the Free World multilateral economic system.

The example

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The example of purposeful economic growth under free institutions will also have a far-reaching political and psychological effect abroad. It will serve to deflate the Soviet line that Communism represents the "wave of the future." Most importantly, it will demonstrate to the peoples of the newly-emerging nations that their aspirations can best be achieved in a free society.

What, after all, is our national purpose in promoting increased trade, in expanding private American investment abroad, in extending technical and financial assistance through our Mutual Security Program?

It is a broad purpose and is not solely confined to furthering economic development as such. For productive capacity and technological skills do not of themselves bring about the full development of a free civilization in which the individual can realize his potential for spiritual growth. We need only recall that Soviet Russia, Communist China, and other bloc nations possess these material assets in varying degrees.

Our interest lies also in the development of free political institutions, of respect for law, of regard for human decency. We seek to accomplish this by helping the new nations to advance toward modern economic and political status - while, at the same time, maintaining their independence and assuring the possibility of an evolution which safeguards the liberty of the individual.

In this way, we move closer to our national goal of living prosperously among friendly nations in a world ruled by law where men can live in peace with justice.

Thank you.

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State--FD, Wash., D.C.